Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011
New Zealand

14 August 2023

Manawa Energy submission: Targeted reform of Distribution Pricing

1. Introduction and scope of this submission

Manawa Energy (**Manawa**) thanks the Electricity Authority (**Authority**) for the opportunity to submit on its *Targeted reform of Distribution Pricing: Issues paper* (**Issues paper**).

Manawa agrees with the Authority that:[1]

"*Promoting efficient electricity infrastructure investment will be particularly important as New Zealand electrifies its transport fleet and industrial processes over the next 30 years to support its transition to a low-emissions economy*".

The Issues paper discusses the removal of pricing practices which will delay the development of flexibility services. Manawa supports accelerated progress on this matter.

Manawa also welcomes the Authority's new focus on connection pricing given the step change in the volume of connection requests currently being received by distributors. This pattern is expected to continue over the next decade or so.

Connection pricing is the focus of this submission.

2. Connection pricing

Problem to be addressed

Manawa agrees that unregulated connection pricing could potentially give rise to each of the problems listed in the Authority's problem statement in the Issues paper, namely:[2]

- High transaction costs due to a lack of consistency across the 27 distributors;
- Overly high cost allocation to access seekers;
- Weak (or no) incentives on distributors to ensure their connection costs are efficient;
- Weak (or no) incentives on distributors to ensure their system growth costs are efficient (if distributors rely too much on connection activity to fund system growth);
- Weak (or no) incentives on access seekers to ensure costs are efficient if they pay very low or fully standardised charges; and/or
- Weak incentives for parties to co-ordinate connection and system growth costs.

However, we think it would be very difficult to design a pricing methodology for each distributor which addresses each of these problems in a timely fashion. For this reason, we would encourage the Authority to focus on one or two key problems first, consistent with its targeted reform approach.

---

[1] Issues paper, page 2

[2] Ibid, page 47

The evidence in Figure 5 that there has been a significant increase in the capital contributions required from access seekers (from 50% in 2013 to 70% in 2022) suggests that the Authority's first priority should be to ensure the reduction of overly high cost allocations.

This is particularly important to the extent that the operation of the Part 4 regulation creates incentives for distributors to increase the proportion of connection expenditure recovered from capital contributions.

We would also recommend more transparency and increased standardisation (to the extent practicable) for similar connection requests such as those relating to the connection of EV charging equipment. These initiatives will accelerate decarbonisation.

In parallel with targeted measures in these areas we trust the Authority will continue to work closely with the Commerce Commission to ensure distributors can (and do) invest appropriately to manage system growth.

Preferred solution

The Authority has described its preferred connection pricing approach in general terms as:[3]

(a) a balanced approach that incentivises both access seekers and distributors to optimise costs, with a preference towards reducing allocations to access seekers where these are overly high (noting that such allocations should be subsidy free);
(b) more standardisation of connection pricing and greater transparency, such that charges are more predictable and the allocation of costs between access seekers and existing customers is clearer; and
(c) flexibility for access seekers to balance cost vs. quality where relevant.

Manawa broadly agrees with these high-level preferences, noting that:

(a) a degree of socialised pricing is likely to speed up the connection process and provide more certainty to access seekers;
(b) standardisation is more likely to be appropriate for smaller scale and/or volumetric connection requests; and
(c) where bespoke connection arrangements are required (dedicated assets or substantial upgrades) parties should be free to negotiate their own access terms (including cost vs quality trade-offs) but these parties need to have access to an intervention mechanism (such as arbitration) that will guard against unreasonable delay or unreasonable access terms.

Balance between capital contributions and usage charges

Manawa thinks there are strong consumer benefits to early electrification which lowers emissions and brings forward access to lower cost renewable generation. Process heat electrification and the electrification of both public and private transport are key opportunities to achieve this.

To ensure connection costs are not a barrier, we think it is desirable to err on the side of lower (but not zero) contributions for access seekers. So long as access seekers meet their avoidable costs existing users will not be worse off and are likely to be better off as a result of the new network usage and other wider benefits (economic activity, decarbonisation etc).

We would be concerned if distributors sought overly high capital contributions from access seekers to:

- increase their payments under the IRIS scheme, or

[3] Issues paper, page 47

- make up for any defaults in their planning for new demand, and/or failure to obtain the necessary regulatory allowances from the Commerce Commission,

Complementary measures

We agree that access seekers should be encouraged to select the most efficient locations for their operations to reduce both their own and the system's overall costs.

To facilitate this, we believe distributors should be required to provide *ex ante* information on network capacity and preferred locations for particular activity. This will help access seekers to plan their investments and target areas where they can be expected to have lower costs and less delay. It is inefficient to use the application process to disseminate this information on a piecemeal and reactive basis.

We also support access seekers who are building mid to large scale plant having the right to contract for works directly. This will keep downwards pressure on total connection costs.

Intervention options

Manawa does not support further use of persuasive measures 'practice notes and scorecards' to address connection pricing. Progress under these mechanisms has been very slow.

We think:

- distributors should be able to recover prudent anticipatory investments and general system growth expenditure under their regulated price-quality paths and that it is not necessary or desirable for the costs of this expenditure to be recovered by capital contributions;
- access seekers who require bespoke connections should have the ability to negotiate these directly with the distributor with a fall-back arbitration mechanism in the event agreement cannot be reached;
- for other access seekers there should be as much standardisation as possible for small scale and volumetric access requests (including in relation to fees); and
- the implementation of the Authority's guidelines on transmission pass-through should be mandated

Regulation will be required to achieve this outcome in a timely fashion.

We accept that a "call in" regime might be an alternative to direct regulation for some matters particularly if the Authority had power to directly amend problematic pricing as part of the call-in mechanism. However, we note the resource cost for the Authority of this method could be significant.

It might be simpler and more cost effective to mandate a set of acceptable pricing approaches but allow distributors to apply for exemptions based on their particular circumstances.

If you have any questions regarding the content of this submission, please contact Grace Burtin, Regulatory Manager (grace.burtin@manawaenergy.co.nz).